

IRS TAX TIP 2004-27

TAX LAW CHANGES FOR INDIVIDUALS

Taxpayers should make sure that they are aware of important changes to the tax law before they complete their 2003 federal income tax forms, advises the IRS. Some of these changes were part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. Here are the major changes that affect tax years beginning in 2003:

Tax Rates

The 2003 Tax Rate Schedules have been revised to reflect the following changes:

- The 10% tax rate applies to taxable income up to \$7,000 for single taxpayers and married taxpayers filing separately (\$14,000 for married taxpayers filing jointly and qualifying widow(er)s; \$10,000 for head of household).
- The 15% rate bracket for married taxpayers filing jointly and qualifying widow(er)s has expanded to twice that of single filers.
- The tax rate brackets of 27%, 30%, 35%, and 38.6% have been reduced to 25%, 28%, 33%, and 35%, respectively.

Standard Deduction

The basic standard deduction for married taxpayers filing jointly and qualifying widow(er)s has increased to \$9,500 (twice that of single filers). The standard deduction for married taxpayers filing separately has increased to \$4,750 (the same as that of single taxpayers).

Child Tax Credit

The maximum child tax credit has increased from \$600 to \$1,000 per child. Many people received a check for an advance payment of the increased portion of the child tax credit, up to a maximum of \$400 per child. Any advance payment received reduces the amount of the child tax credit the taxpayer can claim on the 2003 tax return. However, any advance payment received that is more than the child tax credit for 2003 does not have to be paid back.

Alternative Minimum Tax

The alternative minimum tax exemption amount has increased to \$40,250 for single taxpayers and taxpayers filing as head of household; \$58,000 for married taxpayers filing jointly and qualifying widow(er)s; and \$29,000 for married taxpayers filing separately.

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Capital Gains

The top tax rate on net capital gain (i.e., net long-term capital gain reduced by any net short-term capital loss) has been reduced from 20% to 15% (and from 10% to 5% for gains that would otherwise be taxed at a regular rate of 10% or 15%) for property sold or otherwise disposed of after May 5, 2003 (and installment sale payments received after that date). The reduced rate applies for both the regular tax and the alternative minimum tax. The higher rates that apply to unrecaptured section 1250 gain, collectibles gain, and section 1202 gain have not changed.

Dividends

The same 15% (or 5%) top tax rate that applies to net capital gain also applies to dividends paid by most domestic and foreign corporations after December 31, 2002. Certain dividends from regulated investment companies (such as mutual funds), real estate investment trusts, and certain foreign corporations do not qualify for the reduced rates.

Lifetime Learning Credit

The maximum amount of the lifetime learning credit for 2003 is \$2,000.

For more information, visit the IRS Web site at www.irs.gov. Also, see Publication 553, "Highlights of 2003 Tax Changes," and the instruction book for Form 1040.

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